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Debating Employee Non-Competes and Trade Secrets

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DEBATING EMPLOYEE NON-COMPETES AND TRADE SECRETS

Sharon K. Sandeen[†] and Elizabeth A. Rowe^{††}

Recently, a cacophony of concerns have been raised about the propriety of noncompetition agreements (NCAs) entered into between employers and employees, fueled by media reports of agreements which attempt to restrain low-wage and low-skilled workers, such as sandwich makers and dog walkers. In the lead-up to the passage of the federal Defend Trade Secrets Act of 2016 (DTSA), public policy arguments in favor of employee mobility were strongly advocated by those representing the “California view” on the enforceability of NCAs, leading to a special provision of the DTSA that limits injunctive relief with respect to employee NCAs. Through our lens as trade secret scholars, we enter the fray and present this Article to explore both the values and detriments of NCAs, each taking sides in the debate and providing relevant information about the different approaches to the enforceability of these agreements. Finally, we come together to suggest a more nuanced middle-ground to encourage courts to engage in a more robust analysis that focuses on both the legitimate business interest to be protected by the NCA and reasonableness in the scope of the agreement. To that end, we recommend consideration of six questions to help guide courts in achieving a more equitable and balanced outcome to protect the interests of employers and employees.

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INTRODUCTION

When businesses wish to restrict others (often employees) from working for competitors, they enter into written restrictive covenants known as noncompetition agreements or noncompetes (NCAs). Recently, a cacophony of concerns has been raised about the propriety of NCAs entered into between employers and employees, fueled by media reports of agreements which attempt to restrain low-wage and low-skilled workers, such as sandwich makers and dog walkers.¹ In the lead-up to the passage of the federal Defend Trade Secrets Act of 2016 (DTSA), public policy arguments in favor of employee mobility were strongly advocated by those representing the “California view” on the enforceability of NCAs,² leading to a special provision of the DTSA which limits injunctive relief with respect to employee NCAs.³ Most recently, the Obama administration had made it a priority to highlight and advocate for greater limitations on the enforcement of NCAs in the employment setting.⁴

Through our lens as trade secret scholars, we have decided to enter the fray and present this article as a discussion of what we perceive are the values and detriments of NCAs, with the ultimate goal of suggesting a better way for courts (and perhaps, legislators) to determine the enforceability of such agreements. Currently, states generally follow two diametrically opposed approaches to the question of the enforceability of NCAs: (1) the California view (followed by a handful of other states) which holds that such agreements are unenforceable, with few exceptions; and (2) the majority view, which holds that such agreements are enforceable unless unreasonable. In between these two poles falls a highly fact-

1. See, e.g., Ruth Simon, *Litigation Over Noncompete Clauses Is Rising*, WALL ST. J. (Aug. 14, 2014), <http://bit.do/NoncompeteLitigationRising>; Sarah Whitten, *Jimmy John's drops noncompete clauses following settlement*, CNBC (June 22, 2016), <http://bit.do/JimmyJohnsDropsNoncompete>; Dave Jamieson, *Doggy Day Care Chain Makes Pet Sitters Sign Noncompetes To Protect 'Trade Secrets'*, HUFFINGTON POST (Nov. 24, 2014), <http://bit.do/PetSitterNoncompete>.

2. A California law dating from 1872, Cal. Bus. & Prof. Code § 16600 (1941), makes non-compete agreements void and unenforceable except in very limited circumstances involving the sale of a business.

3. See letter by Professor Sharon K. Sandeen to Senator Dianne Feinstein (dated Aug. 28, 2014) (on file with authors); see also ORLY LOBEL, *TALENT WANTS TO BE FREE* (2013).

4. See White House Office of the Press Secretary, *Fact Sheet: The Obama Administration Announces New Steps to Spur Competition In The Labor Market And Accelerate Wage Growth* (Oct. 25, 2016); White House Office of the Press Secretary, *Executive Order – Steps To Increase Competition And Better Inform Consumers And Workers To Support Continued Growth Of The American Economy* (Apr. 15, 2016); White House Office of the Press Secretary, *State Call to Action On Non-compete Agreements* (Oct. 25, 2016).

specific analysis that often results in unpredictable and seemingly inconsistent rulings.

While the native Californian among us, Professor Sandeen, favors the California view because it provides a bright-line and predictable test that focuses attention on the purpose of the restraint, she agrees with Professor Rowe that the analysis under the majority view ought to be improved. Fortunately, as outlined in this article, the common law of restraints of trade, coupled with the definition of trade secrets under both the Uniform Trade Secret Act (UTSA) and the DTSA, provide the basis for a more improved analysis.

In Part II, we provide an overview of the current law governing NCAs, including a discussion of its common law development and the traditional “legitimate business interest” and “reasonable scope” requirements of enforceable NCAs. Part III provides a description of recent legislative reform efforts. Then, in Parts IV and V, we each take a side in the debate, providing relevant information about the different views on the enforceability question.

In discussing the California view in Part IV, Professor Sandeen emphasizes the need to keep the question of the enforceability of employee NCAs separate from the question of the enforceability of nondisclosure and nonsolicitation agreements. Properly tailored nondisclosure and nonsolicitation agreements that do not restrict an individual from pursuing a trade or profession are acceptable, provided they are otherwise reasonable. She then provides some rationales for why states, like California, might prefer a bright-line test of unenforceability for NCAs.

In Part V, Professor Rowe presents the other side of the debate, setting forth several reasons why appropriately tailored NCAs are beneficial. She argues that employee NCAs can be a valuable and complementary tool for protecting trade secrets because they can be the most effective remedy in some circumstances of trade secret misappropriation. Thus, she advocates for a more nuanced and robust approach to the enforceability of NCAs that is different from the usual binary choice of keeping or banning them. She maintains that to the extent there are concerns about some aspects of NCAs, there are existing mechanisms to protect the interests of employees, and more targeted approaches to addressing specific problems with non-competes might be a more fruitful focus for both employers and employees, rather than the impulsive motivation to ban NCAs altogether.

For those states that follow the majority view, in Part VI, we join forces to suggest an analytical framework that courts faced with the

enforceability question could use to ensure that NCAs are not used for anti-competitive or abusive purposes. The article concludes in Part VII.

I. BACKGROUND OF THE LAW GOVERNING NON-COMPETES

The use of NCAs has a long history, dating back over 500 years, and debates about the pros and cons of such restraints have persisted throughout that time.⁵ The battle lines are typically drawn between those who advocate for freedom of contract and emphasize that the restrictions are limited to the contracting parties, and those who see the broader societal implications of restrictions placed on trade and employee mobility. Due to concerns about restraints of trade, the general rule is that NCAs are unenforceable, but as the common law developed, it was recognized that they might be acceptable if ancillary to a legitimate purpose and “reasonable.” The public policy underlying such a rule was succinctly expressed by then-Judge Howard Taft in *U.S. v. Addyston Pipe & Steel Co.*:

The objections to such restraints were mainly two. One was that by such contracts a man disabled himself from earning a livelihood with the risk of becoming a public charge, and deprived the community of the benefit of his labor. The other was that such restraints tended to give the covenantor, the beneficiary of such restraints, a monopoly of the trade, from which he had thus excluded one competitor, and by the same mean might exclude others.⁶

He also noted the “mischief” and “great abuses” that might arise “from corporations perpetually laboring for exclusive advantages in trade.”⁷

The *Restatement (First) of Contracts* (first published in 1932) details the predominate U.S. law governing restraints of trade in sections 512-519. The general rule is that “[a] bargain in restraint of trade is illegal if the restraint is unreasonable.”⁸ Based upon this, most states will enforce NCAs if they are shown to be reasonable, differing only on such matters as what constitutes reasonableness, the degree and type of evidence that is needed, and who has the burden of proof

5. See Harlan M. Blake, *Employee Agreements Not to Compete*, 73 HARV. L. REV. 625, 626 (1960).

6. *United States v. Addyston Pipe & Steel Co.*, 85 F. 271, 279 (6th Cir. 1898), *aff’d as modified*, 175 U.S. 211 (1899).

7. *Id.*

8. RESTATEMENT (FIRST) OF CONTRACTS § 513 (1932) RESTATEMENT (FIRST) OF CONTRACTS § 513-14 (1932) (“A bargain in restraint of trade is illegal if the restraint is unreasonable.”).

on the issue on reasonableness.⁹ Currently, only four states expressly prohibit the enforcement of such agreements, except in narrow circumstances: California, Louisiana, North Dakota, and Oklahoma.¹⁰

A. *The Many Forms of Restraint on Trade*

Restraints of trade can take many forms, and as the cases reveal, it is important to distinguish between restraints that prevent an individual from pursuing a trade or profession (NCAs) from those that proscribe certain discrete behaviors, such as the disclosure or use of confidential information or the solicitation of clients. The focus of this article is on “true” NCAs and not nondisclosure agreements or nonsolicitation agreements that are mislabeled as NCAs (although many cases involve multiple types of restraints that need to be sorted out). In states like California, where NCAs are unenforceable except in very limited circumstances, reasonable and properly tailored nondisclosure and nonsolicitation agreements will often be enforced.¹¹ The same goes for states where reasonable NCAs are enforceable, with the analysis of reasonableness focusing, in part, on the purpose for the restraint. As a general rule, the more an individual is prevented from pursuing his or her trade or professional calling, the more suspect the agreement.

It is also important to distinguish between restraints that are ancillary to an underlying contract and those that are not.¹² Pursuant to U.S. antitrust law, all “unreasonable” restraints of trade are prohibited by the Sherman Act (or analogous state laws) and may be subject to an enforcement actions by the U.S. Department of Justice or the Federal Trade Commission,¹³ but restraints that are ancillary to a contract entered into for another purpose will generally be analyzed under the “rule of reason”¹⁴ and often are not challenged on antitrust grounds. In contrast, so-called “direct restraints” are more likely to be

9. BRIAN M. MALSBERGER, *COVENANTS NOT TO COMPETE: A STATE-BY-STATE SURVEY*, (10th ed., with 2016 supplement); Norman D. Bishara, *Fifty Ways to Leave Your Employer: Relative Enforcement of Covenant Not to Compete Agreements, Trends, and Implications for Employee Mobility Policy*, 13 U. PA. J. BUS. L. 751, 757 (2011).

10. Cal. Bus. & Prof. Code § 16600 (2016); LSA-R.S. 23:921 (2015); N.D.C.C. § 9-08-06 (2016); Okla. Stat. tit. 15, § 217 (2016). Other states have statutes governing non-compete agreements, but they are not as narrowly drawn. *See e.g.*, C.R.S.A. § 8-2-113 (1982) (Colorado).

11. *See* 15 U.S.C. § 1.

12. *See* RESTATEMENT (SECOND) OF CONTRACTS §§ 187-88 (1981).

13. *Standard Oil Co. of New Jersey v. United States*, 221 U.S. 1 (1911).

14. *Perceptron, Inc. v. Sensor Adaptive Machines, Inc.*, 221 F.3d 913, 919 (6th Cir. 2000) (quoting *Lektro-Vend Corp. v. Vendo Co.*, 660 F.2d 255, 265 (7th Cir.1981)) (“The parties agree that the legality of noncompetition covenants ancillary to a legitimate transaction must be analyzed under the rule of reason.”).

subject to scrutiny under state or federal antitrust laws.¹⁵ Judge Taft discussed the distinction as follows:

No conventional restraint of trade can be enforced unless the covenant embodying it is merely ancillary to the main purpose of a lawful contract, and necessary to protect the covenantee in the full enjoyment of the legitimate fruits of the contract, or to protect him from the dangers of an unjust use of those fruits by the other party.¹⁶

Typically, where NCAs of the ancillary type are allowed, they arise in two distinct situations: (1) in conjunction with an arms-length business transaction, often concerning the sale of a business or an intellectual property license; or (2) as part of an employment relationship.¹⁷

As recounted by Professor Harlan Blake in his seminal article on the history of NCAs, early case law followed a unitary approach to the enforceability of NCAs that did not differentiate between NCAs that were entered into in conjunction with a business relationship and those that were ancillary to an employment relationship.¹⁸ But as business and employment practices began to change in the late 1800s, there was greater recognition of the need to distinguish the two circumstances due to the social benefits of employee mobility and because the purposes of the two types of restraints are fundamentally different. As Professor Blake explained:

[The] objective [of postemployment restraint] is not to prevent the competitive use of the unique personal qualities of the employee—either during or after the employment—but to prevent competitive use, for a time, of information or relationships which pertain peculiarly to the employer and which the employee acquired in the course of the employment. Unlike a restraint accompanying a sale of good will, an employee restraint is not necessary for the employer to get the full value of the thing being acquired—in this case, the employee's current services.

Thus, a key to the reasonableness of an employee restraint is that it is not for the purpose of preventing competition, but rather, is designed to prevent an employee from using “peculiar” information or relationships learned from a former employer in competition with the former employer. Also, while the particular formulations of the test of reasonableness differ from state to state, with some being more

15. See Blake, *supra* note 5 (noting that the history of restraints on trade “may cast some light on the continuing debate between proponents of ‘per se’ doctrines and those advocating extension of the ‘rule of reason’”).

16. *Addyston Pipe & Steel Co.*, 85 F. at 271.

17. See, e.g., *Sherman v. Pfefferkorn*, 241 Mass. 468, 474-75 (1922) (describing the two types of cases and noting the need for different analyses). See also Blake, *supra* note 5, at 646; Restatement (First) of Contracts § 515(e) (1932).

18. See Blake, *supra* note 5.

detailed than others are, the enforceability of NCAs generally requires that the restraint be no greater than is required for the protection of the employer, not impose undue hardship on the employee, and not be injurious to the public.¹⁹ Under antitrust law, the injury requires a balancing of the procompetitive and anticompetitive effects of the restraint,²⁰ which, in the case of NCAs, makes the purpose and scope of the restraint key considerations that should not be ignored. As the foregoing quote by Judge Taft indicates, the restraint must be supported by a legitimate business purpose.

B. The Legitimate Business Interest Requirement

At common law, the requirement that restraints of trade be ancillary to a lawful contract required that the restraints be “reasonably necessary” to protect a “legitimate business interest.”²¹ In *U.S. v. Addyston Pipe*, Judge Taft listed five previously recognized ancillary purposes, including agreements with an “assistant, servant, or agent” to protect “from the danger of loss to the employer’s business caused by the unjust use on the part of the employee of the confidential knowledge acquired in such business.”²²

Although principles of trade secret law began to emerge in the United States in 1837,²³ many of the early cases involved trade secrets related to a business being sold or to specific trade secrets being sold or licensed, and not to trade secrets shared in the context of an employment relationship.²⁴ As NCAs became more prevalent in the employment context, and a legitimate business interest to justify such restrictions had to be found, the protection of confidential information and customer relationships emerged as the predominate justification.²⁵

19. *Id.* at 648-49; *see also* Restatement (First) of Contracts § 515 (1932); Restatement (Second) of Contracts § 187 (1981).

20. *See* *Cont’l T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 49 (1977) (“Under this rule, the fact finder weighs all of the circumstances of a case in deciding whether a restrictive practice should be prohibited as imposing an unreasonable restraint on competition.”).

21. Both *Addyston Pipe & Steel Co.*, 85 F. at 281, and the California case of *Wright v. Ryder*, 36 Cal. 342 (1868), provide detailed accounts of the common law development of restraints of trade through the end of the 1800s. The *Restatement (First) of Contracts*, sets forth the same law as further developed and refined through 1932.

22. *Addyston Pipe & Steel Co.*, 85 F. at 281.

23. *Vickery v. Welch*, 36 Mass. 523 (1837).

24. *See, e.g., Welch*, 26 Mass. at 523; *Wilder v. Adams*, 29 F. Cas. 1216 (C.C.D. Mass. 1846); *Peabody v. Norfolk*, 98 Mass. 452 (1868) (an early case involving the employment relationship).

25. *See e.g., Pffferkorn*, 241 Mass. at 474-75; *Chandler, Gardner & Williams, Inc. v. Reynolds*, 250 Mass. 309 (1924); *Boston & Suburban Laundry Co., Inc. v. O’Reilly*, 253 Mass. 94 (1925).

In fact, such a justification was included in the commentary to the *Restatement (First) of Contracts*, published in 1932, which provides:

A promise of a former employee will not ordinarily be enforced so as to preclude him from exercising skill and knowledge acquired in his employer's business, even if the competition is injurious to the latter, except so far as to prevent the use of trade secrets or lists of customers, or unless the services of the employee are of a unique character.²⁶

The *Restatement (Second) of Contracts* is in accord, noting the difficulty of justifying employee restraints without a “legitimate interest in restraining the employee from appropriating valuable trade information and customer relationships.”²⁷

There are various stated reasons for recognizing the protection of confidential information as a legitimate business interest to support employee restraints. First, such a rule is consistent with the law of trade secrecy that holds, in many situations, that employees are under an implied obligation to maintain their employer's trade secrets.²⁸ Second, and related to the first, is a sort of “but-for” test that is applied when the circumstances indicate that the employee could not have obtained the subject information except in the context of his employment with the plaintiff/employer.²⁹ An overriding justification for the rule is the perceived equities of the circumstances, particularly since the remedy that is ordinarily sought is injunctive relief.³⁰ As summarized by Professor Blake: “What most . . . cases require . . . is that the employer show special circumstances which make it unfair for him to bear all the risk of placing the employee in a position in which a later breach of confidence might be costly.”³¹ This generally requires a business interest that enjoys “some degree of legal protection even in the absence of a contract.”³²

As the circumstances surrounding employee restraints move away from cases of clear access to trade secret information to other

26. Restatement (First) of Contracts § 516(f) (1932).

27. Restatement (Second) of Contracts § 188 (1981).

28. See e.g., *Pffeferkorn*, 241 Mass. at 474-75 (citing *Anchor Electric v. Hawkes*, 171 Mass. 101 (1898), among other cases).

29. *O'Reilly*, 253 Mass at 94; *Molina v. Barany*, 56 N.Y.S. 2d 214 (1945).

30. When the cause of action to enforce an NCA is based upon contract law, the remedy sought is typically specific performance of the restraint. When the underlying cause of action is a trade secret misappropriation claim, the remedy sought is an injunction. Because both remedies are equitable remedies, courts will consider the equities of the situation before deciding to grant the requested relief. See generally Restatement (Second) of Contracts, Chapter 16 Remedies, Topic 3, Enforcement by Specific Performance of Injunction (1981, updated 2016).

31. Blake, *supra* note 5, at 651.

32. *Id.* at 653.

types of employer-owned confidential information (or none at all), the “legitimate business interest” analysis becomes more complicated. The inquiry generally examines: (1) the nature of the underlying information and whether it is already publicly known, including whether the information constitutes the general skill and knowledge of the employee;³³ and (2) whether the information was subject to efforts to keep it confidential.³⁴ But the mere existence of “protectable” information is not the end of the inquiry. “A restraint is reasonable only if it (1) is no greater than is required for the protection of the employer, (2) does not impose undue hardship on the employee, and (3) is not injurious to the public.”³⁵

In recent years, courts that have considered the enforceability of NCAs in the context of employment agreements often fail to explore the issue of legitimate business interest in-depth, instead skipping ahead to the second part of the reasonableness analysis to determine if the restrictions on future employment are reasonable in scope.³⁶ While greater empirical research is needed on this point, it seems that contemporary courts either look for “ancillary agreements” without exploring the actual purpose of those agreements or are more willing to accept an employer’s bald assertions of the need to protect confidential information than was the case before 1960,³⁷ even though the requirements for trade secret protection have become more exacting since the adoption of the Uniform Trade Secrets Act (UTSA) in 1979.³⁸ But while ignoring this critical issue is problematic from both a legal and policy perspective, it also provides a means to improve the NCA enforceability analysis through the simple expedient of requiring courts to find a “legitimate” business interest before engaging in the reasonableness analysis.

33. *Id.* at 672.

34. *Id.* at 673-74.

35. *Id.* at 648-49 (noting that these categories are adapted from the Restatement’s formulation.).

36. *See, e.g.,* Bodemer v. Swanel Beverage, Inc., 884 F. Supp. 2d 717 (N.D. Ind. 2012). *Compare* Wrigg v. Junkermier, Clark, Campanella, Stevens, P.C., 362 Mont. 496, 500 (2011) (noting that the legitimate business requirement “acknowledges the long standing principle that a covenant that serves no legitimate business interest necessarily is oppressive and invalid.”).

37. *See* Blake, *supra* note 5, at 649-50 (“[H]aving completed the analysis of the extent of a protectable interest, courts usually find the relevant considerations exhausted; the other branches of the *Restatement* formulation are seldom, as separate considerations, given much attention.”).

38. Among other changes, the UTSA made the definition of a trade secret more exacting and specifically precluded other tort claims involving “competitively significant information.” *See* UTSA § 1 and § 4 (1985).

C. *The Requirement of Reasonableness*

Determining that a restraint is “ancillary to the main purpose of a lawful contract” and that there is a “legitimate business interest” to support the restraint is only part of the required analysis concerning the enforceability of NCAs. The next step is to determine if the scope of the restraint is “reasonable,” i.e., no more than necessary to further the employer’s legitimate business interest. In *Arthur Murray Dance Studios of Cleveland v. Witter*, one court set forth forty-one questions that could be asked concerning the reasonableness of employee restraints.³⁹ More narrowly, the scope of restraint analysis typically examines: (1) the nature of the business and related field-of-use restrictions; (2) the duration of the restriction; (3) the geographic reach of the restriction; and (4) in the case of NCAs to protect trade secrets, how quickly the trade secret may diminish.⁴⁰ Courts will also consider the financial hardship to the employee if the noncompetition agreement is enforced and the public interest.⁴¹

NCAs, like any contract in the United States, require consideration in exchange for the promise. In the employment context, if signed at the beginning of the employment relationship, the employment itself provides the required consideration in many jurisdictions.⁴² If signed after employment begins, continued employment might be sufficient if it was understood from the beginning that such an agreement would be a condition of the job. Continued employment is enough consideration in about thirty-five states.⁴³ However, the length of the continued employment that is deemed sufficient can vary. For instance, in Tennessee, Illinois, and the District of Columbia, if the employment was for an “appreciably long” time or of “sufficient duration” then it will be deemed sufficient consideration.⁴⁴ Idaho has an interesting variation that ties the consideration of additional consideration to the length of the NCA.⁴⁵ Under Idaho law, an NCA that does not provide additional

39. *Arthur Murray Dance Studios of Cleveland v. Witter*, 105 N.E. 2d 685 (Ohio Com. Pl. 1952).

40. See SHARON K. SANDEEN & ELIZABETH A. ROWE, *TRADE SECRET LAW IN A NUTSHELL* (2013).

41. *Id.*

42. *Id.* at 211.

43. *Id.*

44. WHITE HOUSE OFFICE OF PRESS SECRETARY, *NON-COMPETE REFORM: A POLICYMAKER’S GUIDE TO STATE POLICIES* (2016), <http://bit.do/NoncompeteReform> [hereinafter *Non-Compete Reform*].

45. IOWA CODE ANN. § 550.2 (WEST 2016)

consideration cannot exceed eighteen months.⁴⁶ In about thirteen states, the mere continuation of at-will employment is not enough consideration for a noncompetition agreement signed during the term of the employment.⁴⁷ Thus, the employer must provide fresh consideration, such as a salary increase.

II. RECENT EFFORTS TO REFORM THE LAW GOVERNING NONCOMPETITION AGREEMENTS

There has recently been a wave of attempts by those who wish to ban NCAs to modify the laws in states that enforce them. The Alliance for Open Competition (AOC), among other organizations and individuals, has lobbied nationwide as part of these efforts.⁴⁸ The group's objective is to "break down a major barrier to entrepreneurialism; the use of non-competition agreements mandated by employers that force employees to sign away their rights to engage in any business of a competitive nature when they leave their present jobs."⁴⁹

A. State Efforts

Legislators in states like Hawaii, Illinois, Massachusetts, Michigan, Oregon, and Washington, have considered legislation restricting NCAs. Recent efforts failed in Massachusetts,⁵⁰ Michigan,⁵¹ and Washington,⁵² but Oregon passed legislation in 2015⁵³ and Hawaii⁵⁴ and Illinois⁵⁵ passed legislation in 2016. More legislation is expected to be introduced in 2017.

In general, the efforts to reform NCAs have focused on several respectable objectives. These include, for instance, creating greater transparency for employees regarding the terms of noncompetition agreements, eradicating enforcement of noncompetition agreements against low-wage workers, implementing exemptions for certain occupations, and restricting the geographic scope and duration of

46. *Id.*

47. ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS, § 6.01[3][F][1] (2016) (discussing whether at-will employment is consideration for a restrictive covenant).

48. Alliance for Open Competition, *About Us*, OPEN COMPETITION (2017), <http://bit.do/AllianceOpenCompetition>. See also the advocacy efforts of various labor unions.

49. *Id.*

50. See H.B. 4323 (Mass. 2016).

51. See H.B. 4198 (Mich. 2015).

52. See H.B. 1926, 64th Leg., Reg. Sess. (Wash. 2015).

53. OR. REV. STAT. § 653.295 (2016).

54. See 2015 Haw. Sess. Laws 158.

55. See 2016 Ill. Legis. Serv. P.A. 99-860 (S.B. 3163) (West).

noncompetition clauses.⁵⁶ Several state legislatures have considered changes to their noncompetition regimes. Some, like Georgia, have actually moved toward greater enforcement.⁵⁷ Alabama further clarified what is a valid protectable interest for such agreements.⁵⁸

Some states have limited or prohibited noncompetition agreements for certain occupations: New Mexico restricts enforceability for some healthcare practitioners,⁵⁹ and Hawaii prohibits them for technology workers.⁶⁰ There were proposals in New Jersey and Maryland to make NCAs unenforceable for those workers who may be eligible for unemployment compensation.⁶¹ Recent reform efforts in some states have also attempted to legislatively limit the duration of postemployment restrictions. For instance, Oregon has restricted noncompetition agreements to a maximum of eighteen months,⁶² and Washington to one year.⁶³

B. Federal Efforts and the DTSA

On the federal level, proposals during the 114th Congress (2015-2016), titled the Mobility and Opportunity for Vulnerable Employees Act (MOVE)⁶⁴ and the LADDER Act,⁶⁵ were introduced but not passed. This legislation was motivated by the fear that noncompetition agreements are now being used to restrict not only higher earning executives and top-level employees, but minimum-wage workers at fast food restaurants⁶⁶ and even dog sitters.⁶⁷

The DTSA, while not expressly endorsing any particular state's approach, contains a provision that was intended to honor the noncompetition laws of each state. However, the provision, in effect, takes a strong position against the enforcement of NCAs. Section 1836 (b)(3)(A)(i), provides that a court may grant an injunction provided that it does not:

56. See *Non-Compete Reform*, *supra* note 44, at 2.

57. GA. CODE ANN. § 13-8-53 (2012).

58. ALA. CODE § 8-1-190 (2016).

59. N.M. STAT. ANN. § 24-11-2 (2015).

60. HAW. REV. STAT. § 480-4(d). A similar bill was also proposed in Missouri but did not pass. H.R. 1660, 98th Gen. Assemb., 2nd Reg. Sess. (Mo. 2016).

61. See N.J. Assemb. 3970, 215th Leg. (N.J. 2013); S. 468, Gen. Assemb., Reg. Sess. (Md. 2013).

62. Or. Rev. Stat. § 653.295(2) (2016).

63. UTAH CODE ANN. § 34-51-201 (LEXISNEXIS 2016).

64. ME Act, S. 1504, 114th Cong. (2015).

65. LADDER Act, H.R. 2873, 114th Cong. (2015).

66. See Press Release, Congressman Joseph Crowley, Jimmy John's Takes a Bite Out of Workers' Rights (Oct. 22, 2014), <http://bit.do/JimmyJohnsWorkersRights>.

67. See Jamieson, *supra* note 1, at 2.

(I) prevent a person *from entering into an employment relationship*, and that conditions placed on such employment shall be based on evidence of threatened misappropriation, and not merely on the information the person knows; or (II) otherwise conflict with an applicable State law *prohibiting restraints* on the practice of a lawful profession, trade, or business.⁶⁸

This language could be read to prevent a court from granting an injunction restraining an employee from working for another employer in any state, even in states that enforce noncompetition agreements, at least with respect to the remedies that are available for trade secret misappropriation under the DTSA.⁶⁹ It follows then that employers in states that enforce NCAs will need to rely on state contract and trade secret law to restrain employees from working for competitors. For those in states like California, applying the DTSA will largely mirror the existing state law on noncompetition agreements and the inevitable disclosure doctrine.

With respect to the inevitable disclosure doctrine, the DTSA does not adopt the doctrine, instead seemingly preventing application of the doctrine in states that recognize it. The language of section 1836(b)(3)(A)(i)(I), *supra*, provides that an injunction must be based on evidence of threatened misappropriation, and not merely on the fact that an individual knows certain information. However, the clause preceding that language, which bans injunctions restraining employment, seems to eviscerate the heart of the inevitable disclosure doctrine (which usually prevents an employee from working for a competitor for a certain period). Accordingly, the DTSA strikes a blow to states that recognize the inevitable disclosure doctrine by making that doctrine inapplicable in DTSA actions.

III. THE BENEFITS OF CALIFORNIA'S APPROACH

The California approach to the enforceability of NCAs dates back to the late 1800s when the California Legislature was one of the first states to adopt a comprehensive set of civil codes and reflects a clear choice that the California legislature made in 1872 to opt for a default rule of unenforceability. The legislation (now codified in Business & Professions Code section 16600, hereafter "16600") followed an 1868 case in which the California Supreme Court, after carefully detailing the common law on restraints of trade, decided not to enforce an NCA that would have prevented the buyer of a

68. 18 U.S.C. § 1836(b)(3)(A)(I)-(II) (West 2016).

69. A review of the legislative history raises a question about whether this was what was intended by Congress. This provision was heavily influenced and lobbied for by those representing the California view on inevitable disclosure and employee mobility. Sen. Feinstein (of California), in particular, was a key advocate and supporter of this approach.

steamboat from operating in the waters of California.⁷⁰ Although the seller urged the court to respect the freedom to contract, the court ruled that the public's interest in free competition overrode such principle, in part due to the court's concern that it would be difficult to discern where a contract was a limited restraint and where it was not.⁷¹

A. California's Approach Focuses Attention on Whether a Legitimate Business Interest Exists

As a result of California's early rejection of NCAs, the state never really developed a body of law that recognized the protection of trade secrets as a legitimate business interest to justify employee NCAs and, in fact, never developed the so-called "trade secret exception" to 16600. Rather, the need for a legitimate business interest is built into the types of restraints of trade it will enforce; namely, nondisclosure agreements and nonsolicitation agreements. The California approach, while rejecting NCAs except in connection with the sale of a business, looks closely at the real purpose of the restrictions. Regardless of the title that is placed on a contract or clause, the critical issue in California is whether the agreement restricts an individual in their trade or profession. If it does, it will not be enforced, but if the agreement merely precludes the use or disclosure of confidential information or the solicitation of former clients, then it is not an NCA and will be enforced if otherwise reasonable. This was the result in *Gordon v. Landau*, the case often cited as creating the so-called trade secret exception but which, in reality, simply recognized that nondisclosure agreements designed to protect trade secrets can be enforceable in California.⁷²

Seen in the foregoing light, California law is not that far removed from the common law approach. In states that properly apply the common law approach instead of the California approach, employee NCAs are only enforced if an interest in protecting legitimate trade secrets and confidential information is shown. In

70. *Wright v. Ryder*, 36 Cal. 342 (1868).

71. *Id.* at 361 ("But we have grave doubts whether, in this age of abundant capital and active competition in all the avenues of commerce, the withdrawal of a single boat from our navigable waters could be deemed an appreciable restraint upon trade, or result in the slightest inconvenience to the public. The difficulty lies in fixing the line between that which is or is not an appreciable restraint of trade.").

72. *Gordon v. Landau*, 49 Cal. 2d 690, 694 (1958) ("It clearly appears from the terms of the contract that it did not prevent defendant from carrying on a weekly credit business or any other business. He merely agreed not to use plaintiffs' confidential lists to solicit customers for himself for a period of one year following termination of his employment. Such an agreement is valid and enforceable."); *see also* *Ret. Grp. v. Galante*, 176 Cal. App. 4th 1226 (2009).

California, an NCA will not be enforced, but nondisclosure agreements to protect legitimate trade secrets and confidential information will be. In both cases, however, the restrictions must be tailored to the interest sought to be protected and be reasonable in scope. By making most NCAs unenforceable, California decided that restrictions on employees that extend beyond a promise not to use or disclose confidential information are unreasonable

B. California's Approach Does Not Unduly Burden Employees

The tendency of contemporary courts and litigants to pay scant attention to the legitimate business interest prong of the NCA enforceability analysis is one reason why states may wish to adopt the California approach and render most NCAs *void ab initio*. But there are other reasons and, at bottom, the choice (particularly in the employment context) comes down to who should bear the burden of negotiating and litigating a reasonable NCA. More to the point, to what extent can states trust employers within their state to only draft and seek to enforce “reasonable” NCAs? If most employers cannot be trusted to draft reasonable NCAs that are designed to protect legitimate business interests, then the likely costs to a state are undue restrictions on employee mobility, reduced competition, and more litigation. Under California’s approach, the burden of drafting an appropriately tailored agreement that is focused on a legitimate business interest is placed upon employers.

California’s approach also reduces litigation to enforce NCAs, either because lawsuits are not brought in the first place or because it provides a relatively quick means for employees who are sued to prevail on a Motion for Summary Judgment.⁷³ Additionally, by stating that most NCAs are unenforceable, there are less means by which threats of lawsuits can be used to chill legitimate behavior—including competition—by former employees. This is because, although threats may still be made (particularly if the employee also signed a nondisclosure agreement), it is fairly easy for employees in California (and their attorneys) to learn that the NCA they signed cannot be enforced. Moreover, illegal NCAs in California may be the basis of a claim for unfair business practices⁷⁴ and terminating an

73. See, e.g., *Dowell v. Biosense Webster, Inc.*, 179 Cal. App. 4th 564, 570 (2009) (trial court granted motion for summary judgment on the ground that restrictive covenant was *void ab initio*).

74. *Dowell v. Biosense Webster, Inc.*, 179 Cal. App. 4th 564, 575 (2009) (“An employer’s use of an illegal non-compete agreement also violates the UCL § 17200 [“unfair competition shall mean and include any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising”].).”

employee for violating or refusing to sign an unenforceable NCA may constitute wrongful termination.⁷⁵

C. California's Approach Is More Efficient, Clear, and Predictable

Three related benefits of California's approach are its efficiency, clarity, and predictability. As noted previously, forty-six states and the District of Columbia recognize and enforce reasonable NCAs.⁷⁶ Of these, twenty-six have statutes governing their enforcement, while the remainder rely largely on common law.⁷⁷ As a practical matter, this means that the particular laws and policies of each state must be researched to determine if an NCA will be enforced, a process that most employees cannot afford to pursue. Employers are also adversely affected by inconsistent and unclear laws governing NCAs, increasing their transaction costs as they try to craft agreements that will be enforced in multiple states. Adding to the inefficiency is the fact that the reasonableness analysis is very fact-driven and, at the time an NCA is entered into, can only be determined based upon representations that are often unverifiable. The inability to verify the existence of trade secrets and other confidential information before an NCA is entered into is of particular concern.

Given the nature of trade secrets—namely, the fact that they are supposed to remain at least “relatively secret”—there are practical problems associated with an employee trying to determine if a legitimate business interest to protect trade secrets actually exists. For one, anything more than a general description of trade secrets in an NCA would create another document that might lead to the disclosure and loss of those trade secrets. Second, trade secrets are not “granted” like patent rights and there is no place to “register” them like trademarks and copyrights, meaning that there is no independent and preexisting body of information that an employee can search to verify the existence of alleged trade secrets. Third, although employees are often required to sign NCAs or nondisclosure agreements, employers do not always adequately identify or mark the information that they claim to be trade secret or confidential information.

In light of the strong policy against restraints of trade, there is something unsettling about enforcing NCAs when the putative trade secret owner does not have to specifically identify and prove the

75. *Silguero v. Creteguard, Inc.*, 187 Cal. App. 4th 60, 63, *as modified on denial of reh'g* (Aug. 16, 2010).

76. *Infra* Part II.

77. *Id.*

existence of trade secrets and confidential information at the time the agreement is entered into. If the mere assertion of trade secret rights is the only thing that is needed to justify restraints on trade, there is a great risk of the over-assertion of such rights, or what Judge Taft referred to as “corporations perpetually laboring for exclusive advantages in trade.”⁷⁸ What company wouldn’t assert the existence of trade secrets if it provides a ready basis upon which to restrict competition? Thus, if we really care about free competition, the legitimacy of the business interest should depend upon something more than the alleged existence of trade secrets. Or, as California has decided, NCAs in such circumstances can be banned altogether.

Lastly, the California view has important ancillary effects that lie at the heart of the policy choice. First, it promotes competition, including the ability of former employees to create competitive businesses that, in theory, have the salutary effect of lowering costs to consumers. Second, the policy can lead to greater innovation, creativity, and efficiency, as the competitive businesses founded by former employees attempt to differentiate themselves from their competition, including former employers. Third, California’s view promotes employee mobility, including personal growth and potential upward mobility. It also encourages the workforce to be productive, rather than spending a year or more on “garden leave” or in jobs that do not fully utilize an employee’s talents.

IV. THE BENEFITS OF THE MAJORITY VIEW

While some scholars have argued for the adoption of the California view and against the enforcement of NCAs for many of the reasons detailed above,⁷⁹ and that noncompetition agreements are superfluous in light of the availability of trade secret protection,⁸⁰ there is another story that can be told about the use of NCAs to protect trade secrets. Here, Professor Rowe details what she considers are the benefits of employee NCAs that are designed to protect trade secrets. She asserts that when trade secrets are genuinely at risk, NCAs provide an additional level of protection that is often better suited to the circumstances than nondisclosure agreements (NDAs).

78. *Addyston Pipe & Steel Co.*, 85 F. at 279.

79. See, e.g., Orly Lobel, *TALENT WANTS TO BE FREE* 118-19 (2013); Viva R. Moffat, *Making Non-Competes Unenforceable*, 54 *Ariz. L. Rev.* 939, 965-84 (2012); Viva R. Moffat, *The Wrong Tool for the Wrong Job: The IP Problem with Noncompetition Agreements*, 52 *WM. & MARY L. REV.* 873, 873 (2010).

80. See Maura Irene Strassberg, *An Ethical Rabbit Hole: Model Rule 4.4, Intentional Interference with Former Employee Non-Disclosure Agreements and the Threat of Disqualification*, Part II, 89 *NEB. L. REV.* 923 (2011).

To the extent there are concerns about some aspects of NCAs, she argues that there are existing mechanisms to protect the interests of employees, and more targeted approaches to addressing specific problems with non-competes might be a more fruitful focus for both employers and employees rather than the impulsive motivation to ban NCAs altogether.

A. NCAs Supplement Trade Secret Protection

As detailed above, the protection of trade secrets has long been considered a legitimate business interest that can justify an NCA.⁸¹ However, not only are trade secrets a legitimate protectable interest of an employer, but information that does not reach the level of a trade secret and is merely “confidential” to the employer has also been deemed sufficient to support reasonable restraints against an employee.⁸² Indeed, perhaps it is the notion of commercial privacy or protection against commercial piracy that is really at the heart of the legitimate business interest requirement.⁸³ Because employers have a broad range of proprietary interests worth protecting from employee piracy, NCAs are needed to supplement the law of trade secrecy which does not protect all confidential and proprietary information. The rising importance of business information also suggests that it is not only employees who are exposed to technical trade secrets who might need to enter into noncompetition agreements. Just as it is standard advice that employers should enter into appropriate nondisclosure agreements with their employees in order to protect their trade secrets, it would be unwise to suggest that they only do so with employees exposed to technical information.

Both the UTSA and DTSA permit the granting of injunctions for threatened misappropriation of trade secrets⁸⁴ and, therefore, one remedy available to courts is to enjoin an employee from working for a competitor. However, this option is also quite controversial.⁸⁵ Courts, in general, are reluctant to grant such a drastic remedy for the same reasons that contractual restraints of trade are suspect. The presence of a contractual agreement between the employer and the

81. See, e.g., *Campbell Soup Co. v. Desatnick*, 58 F. Supp. 2d 477, 489 (D.N.J. 1999); *Diodato v. Wells Fargo*, 44 F. Supp. 3d 541, 568 (M.D. Pa. 2014).

82. See, e.g., *Campbell Soup*, 58 F. Supp. 2d at 489; *Proudfoot Consulting Co. v. Gordon*, 576 F.3d 223, 1233-36 (11th Cir. 2009).

83. See, e.g., *Reed, Roberts Assocs., Inc. v. Strauman*, 353 NE. 2d 590, 593 (N.Y. 1976) (noting that an employer has a legitimate interest “in safeguarding that which his business made successful and to protect himself against deliberate surreptitious commercial piracy”).

84. Unif. Trade Secrets Act § 2 (1985).

85. See NON-COMPETE CONTRACTS, *supra* note 22, at 4.

employee, i.e., an NCA, often is the difference in a court deciding whether to impose this injunctive remedy to restrain an employee. Moreover, a properly worded and tailored NCA helps the court and the parties to identify the information at issue and can serve as a check on employer tendencies to claim more trade secrets post-employment than were identified during the employment.

Even without an NCA, some courts apply the inevitable disclosure doctrine to prevent an employee from working for a new employer.⁸⁶ It is a highly controversial remedy precisely because critics complain that there is no contractual agreement between the employer and employee. If NCAs designed to protect trade secrets are also disallowed, the reasoning becomes circular: trade secret law, by itself, cannot replace NCAs because when it does, it falls prey to the same arguments about fairness and employee mobility that are used to attack NCAs. Under the DTSA, the argument is even more tenuous because it explicitly does not permit injunctions that would restrain an employee from working for a competitor.⁸⁷ It is, therefore, not an option—not even in states that permit NCAs.⁸⁸ Accordingly, federal civil protection for trade secret misappropriation does not supply a substitute or a remedy that achieves the same objectives as an NCA. Rather, an employer would need to file an action for breach of contract or under the state trade secret misappropriation statute, rather than under the DTSA, if it wishes to restrain an employee.⁸⁹ Of course, the breach of contract action would only provide for such a remedy if the trade secret owner was suing to enforce a contractual agreement like an NCA.⁹⁰

B. Employers Have Incentives to Draft Reasonable NCAs

Careful attention to the drafting stage of the NCAs might be a very fruitful focus for both employers' and employees' interests. Given the importance of trade secrets to companies, when faced with the legitimate threat of misappropriation from a soon to be former employee, it is certainly in the employer's best interest to have drafted an agreement that the court will deem reasonable and therefore enforceable. Employers, therefore, have every incentive to

86. See *Merck & Co. v. Lyon*, 941 F. Supp. 1443 (M.D.N.C. 1996); *Barilla America, Inc. v. Wright*, No. 4-02-CV-90267, 2002 U.S. Dist. LEXIS 12773 (S.D. Iowa July 5, 2002).

87. 18 U.S.C. § 1836(b)(3)(A)(I) (West 2014).

88. *Id.*

89. See *infra* Part II.B.

90. Although the UTSA precludes all tort claims related to "competitively significant information" other than trade secret claims, it specifically does not preclude breach of contract claims. See U.T.S.A. § 7 (amended 1985).

draft NCAs that will be enforced by the courts, in the event that it becomes necessary to file an action against a former employee.

Arguably, if an NCA looks like an agreement that one might have arrived at after careful deliberation and negotiation between the employer and an employee who is represented by counsel, rather than an overbroad contract of adhesion, it is more likely to be enforced.⁹¹ This is why, for instance, those cases where employers agree to pay the salary of the employee while he or she sits out for a certain period of time before joining the new employer are an easier call for courts. These “garden leave” type agreements, though not as widely accepted in the United States as they are in Europe,⁹² go a long way to addressing the interests of both sides: compensation to the employee for the restriction on his mobility for a limited time, and assurances to the employer that its trade secrets will be protected during its most vulnerable period. Nonetheless, a focus on the scope and nature of the information to be protected is also necessary.

When the focus of an NCA shifts away from the protection of “all information” and toward the protection of legitimate and identified trade secrets and confidential information, it is more likely to be enforced, but as importantly, it is more likely to be understood and honored by employees. When this shift in focus occurs, then only those employees who in fact have access to such secrets and who are exposed to sensitive information should be entering into NCAs. If employers also adopt the recommended trade secret protection strategy of “need to know” rather than “good to know,” they will naturally limit the number of NCAs that are required.

C. The Difficulty and Costs of Enforcing NCAs Serve as a Check on Abuses

Largely missing from the debates about the enforceability of NCAs in the trade secret context is the recognition that courts already have a wide range of options to enforce trade secret rights, including tailoring specific injunctions to prevent misappropriation when an employee accepts work with a competitor that risks disclosure of the former employer’s trade secrets. Thus, whether deciding to issue an injunction pursuant to a UTSA or DTSA claim or to specifically enforce a restriction in an NCA, courts are acting “in equity” and are

91. See *Spann v. Lovett & Co., Ltd.*, 2012 Ark. App. 107, 389 S.W.3d 77, 90 (2012) (holding that a contract not to compete was reasonable, one of the factors being the contract was negotiated).

92. See generally, Charles A. Sullivan, *Tending the Garden: Restricting Competition via “Garden Leave”*, 37 BERKELEY J. EMP. & LAB. L. 293, 299-305 (2016).

required to balance the rights of the employer with the rights of the employee and the public. Before limiting an employee's mobility there must be a strong business justification. This does not necessarily present a binary choice of working for the competitor or not. Rather, there is a middle ground, wherein some courts will permit the employee to accept his or her new assignment, but provide for separation or reassignment of certain tasks and duties for a certain period of time in order to avoid even the temptation to disclose the former employer's trade secrets. While it could be argued that this weighs in favor of banning NCAs because the injunctive mechanisms within trade secret law already provide a satisfactory remedy,⁹³ arguably injunctions related to enforceable NCAs can be more readily tailored to the circumstances as defined in the NCA itself.

In most jurisdictions, courts will reform an NCA that is determined to be unreasonable.⁹⁴ Some courts adopt this "blue pencil" approach and will partially enforce⁹⁵ the agreement, while others void the entire agreement if one provision is unreasonable.⁹⁶ However, courts may not add terms to a contract under the "blue pencil" approach. In states that follow an equitable reform or reformation doctrine, judges can amend any questionable language in order to create an enforceable contract that matches the original intent of the parties. This is more flexible than the blue pencil doctrine, but some worry that it may encourage employers to include riskier provisions in their agreements. This can then affect the behavior of employees who rely on language that is unlikely to be enforced. Some states, however, in "red pencil" jurisdictions, do not allow any modification of contracts and instead courts in these jurisdictions will render the entire contract unenforceable, if any provision is found to be unenforceable.

Courts therefore have the flexibility to consider a whole host of information beyond the specific terms of the agreement in deciding whether it would be equitable to restrain the employee. One

93. See discussion *supra* Part IV.A.

94. See e.g., FLA. STAT. ANN. § 542.335(1) (West 2015); MICH. COMP. LAW ANN. §445.774a (West 2015); TEX. BUS. & COM. ANN. § 15.51(c) (West 2015).

95. See *Ferrofluidics Corp. v. Advanced Vacuum Components, Inc.*, 968 F.2d 1463,1469 (1st Cir. 1992) (The term "blue penciling" refers to the process of amending contract terms as opposed to refusing to enforce them. Professional editors (before word processing) often used blue pencils to indicate changes and red pencils to indicate deletions. With respect to NCAs, the term "blue penciling" refers to processes whereby NCAs may be re-written by courts instead of being held unenforceable. The term "red penciling" means that a court is unwilling to rewrite an unreasonable term contained in an NCA.).

96. See WIS. STAT. § 103.465 (West 2015) (specifying that unreasonable restraints are unenforceable even though other parts of the contract might be reasonable).

consideration, for instance, could be the occupational field of work in which the agreement is being used. Employees in occupations like engineering and computer science are more likely to sign noncompetition agreements.⁹⁷ This is not particularly surprising or troubling given that these types of employees tend to be involved in research and development, and thus privy to sensitive trade secret information. Nevertheless, while the field of work or one's position alone should not be determinative, these can be important considerations for a court in deciding how to carve out appropriate relief.

In addition to the courts' flexibility in enforcing NCAs, the practical reality is that there are many reasons why NCAs are unlikely to be enforced by employers in the first place. Professor Gomulkiewicz, in an excellent article, discussed evidence of the "leakiness" of noncompetition agreements in the state of Washington. He found that between 2005 and 2014, there were only thirty-two cases against former employees to enforce noncompetition agreements in Washington courts.⁹⁸ He identifies several reasons that might explain this phenomenon, including, the costs of litigation, the risks of counter litigation, the risks of disclosing trade secrets during litigation, and potential negative public relations for the employer.⁹⁹ He suggests that employers may choose to file actions against the departing employees to enforce noncompetition agreements only in the most egregious cases.¹⁰⁰ There is no reason to believe that a similar pattern does not exist in all or most states that enforce NCAs and that such a lack of enforcement could serve to mute the overall effect of having employees sign noncompetition agreements.

Moreover, about half of the states that allow noncompetition agreements already provide exemptions for certain professions. Interestingly, the professions most often exempted are broadcasters and medical practitioners.¹⁰¹ Seven states exempt broadcasters from their noncompetition laws, including Arizona, Connecticut, District of Columbia, Illinois, Massachusetts, Maine, and Washington.¹⁰² Part of the concern is that broadcasters working in, for instance, rural areas

97. See OFFICE OF ECONOMIC POLICY, U.S. DEPARTMENT OF THE TREASURY, NON-COMPETE CONTRACTS: ECONOMIC EFFECTS AND POLICY IMPLICATIONS (2016), <http://bit.do/DeptofTreasNonCompeteContracts>.

98. See Robert W. Gomulkiewicz, *Leaky Covenants-Not-To-Compete as the Legal Infrastructure for Innovation*, 49 U.C. DAVIS L. REV. 251, 277-88 (2015).

99. See *id.* at 280-86.

100. See *id.* at 288.

101. *Non-Compete Reform*, *supra* note 44, at 6.

102. *Id.*

may have very limited options for employment. Another seven states have exemptions for physicians and medical practitioners.¹⁰³ These include Arizona, Connecticut, Delaware, New Mexico, Rhode Island, Tennessee, and Texas.¹⁰⁴ It is believed that noncompetition agreements interfere with patients access to medical providers as well as patient's rights to choose their providers.¹⁰⁵

D. Legislation Can Address Specific Concerns While Not Banning NCAs

Even if noncompetition agreements are often not enforced across the country, there is still concern about possible chilling effects on employees who have these restrictive agreements in their contracts and are unaware of the likelihood of enforcement. More targeted approaches to addressing these specific concerns rather than painting NCAs with a broad brush might prove more fruitful.

Sometimes, employers present to employees noncompetition agreements that contain unenforceable or overbroad provisions. Because workers are not usually aware of the unenforceability of such provisions, such terms can have a chilling effect on their behavior, particularly if employers are known to threaten litigation. However, banning noncompetition agreements in a particular state does not necessarily protect employees in that state from having to sign such agreements. For instance, even though California does not enforce NCAs, one study found that 62% of CEO contracts for companies headquartered in California contained noncompetition clauses.¹⁰⁶ This means that the chilling effect on mobility, assuming the pattern bears out for noncompetition agreements in general, would not be erased. Accordingly, some attention might be given to efforts to discourage employer's from including unenforceable terms in their agreements.

Steps to encourage transparency of NCAs might go a long way in this effort. Ideally, for those employees who are well-informed and consult with counsel, steps can be taken to reduce the likelihood of litigation or to negotiate favorable terms in the beginning of the employment process that would leave out or mute the effect of a very restrictive noncompetition agreement. In some cases, employees also

103. *Id.*

104. *Id.*

105. *Id.* at 7.

106. See Norman Bishara, Kenneth J. Martin, and Randall S. Thomas, *An Empirical Analysis of Noncompetition Clauses and Other Restrictive Postemployment Covenants*, 68 VAND. L. REV. 1, 34-35 (2015).

negotiate with their new employers to receive what is effectively the cost of defense and indemnification if the former employer decides to file an action to enforce the noncompetition agreement. If, however, it is the rare employee who is in a position to bargain or negotiate the terms of his or her noncompetition agreement,¹⁰⁷ then the argument for external control through legislation makes more sense. This is especially so in circumstances where employers introduce noncompetition agreements after an employee has already started work.

It can also be troubling when employees' noncompetition agreements, come in the "cubewrap" or "click to agree" variety. In one case, a court upheld an agreement where the employee clicked the "accept" button on a pop-up notification.¹⁰⁸ Perhaps these are the kinds of cases that move legislators to act on a grand scale, but it is not advisable to overreact or attempt to over-correct what may otherwise be a workable framework. Legislation that is specifically tailored to target certain kinds of conduct to protect particular segments of workers deemed most vulnerable might be one approach. Another approach might be to require an express written agreement, and exclude "clickwrap" agreements as an appropriate format for an NCA. The problem could also be left to the courts, wherein the nature of such contracts or the conditions under which they were extracted might be deemed unreasonable (rather than limiting reasonableness to the usual focus on length, geography, and breadth).¹⁰⁹

To the extent those most likely to be harmed by NCAs are low-level workers (who also tend to be low-wage workers) who do not have adequate means and access to counsel, possible reform measures tying wage levels to enforcement of noncompetition agreements might make sense. As of April 2017, it is expected that some states will have moved toward establishing these kinds of limits. For instance, in Oregon, a statute adopted effective January 1, 2016, requires that an employee's salary exceed the median family income for a family of four in order for a noncompetition agreement to be enforceable.¹¹⁰ An Illinois statute prohibits noncompetition

107. See Orly Lobel, *Enforceability TBD: From Status to Contract in Intellectual Property Law*, 96 B.U. L. REV. 869, 877 (2016).

108. See *Newell Rubbermaid, Inc. v. Storm*, 2014 WL 1266827, at *1 (Del. Ch. Mar. 27, 2014).

109. The reasonableness test often considers whether an employer has a legally protected interest, and whether the noncompetition agreement is no wider in scope and duration than is reasonably necessary to protect that interest. In addition, it cannot impose an undue hardship on the employee and cannot violate public policy. See e.g., *Deutsche Post Glob. Mail, Ltd. v. Conrad*, 116 F. App'x 435, 438-39 (4th Cir. 2004).

110. OR. REV. STAT. § 653.295(1)(d) (West 2016).

agreements with employees earning below thirteen dollars an hour.¹¹¹ Reformers in Massachusetts attempted to set wage levels (\$130,000 a year from a Senate¹¹² proposal and \$47,476 per year from the House¹¹³ proposal) but were unsuccessful. Although earlier legislative efforts failed in Washington, new legislation has been introduced that would void noncompetition agreement if the amount the employee earns is less than \$55,000.¹¹⁴

Another possible reform is to preclude courts from “blue penciling” NCAs to make them more reasonable, except perhaps on some limited issues. In states where this practice is allowed, an incentive is created for employers to overreach because if they do so, they know that the likely outcome will be the enforceability of re-written provisions rather than an outright rejection of their NCAs.¹¹⁵ Since the enforceability of NCAs are not litigated with respect to most employees (except through rare government enforcement efforts), allowing blue penciling increases the chilling effect of overbroad NCAs and hampers competition and employee mobility.

Where the concern is about the ability or ease with which private plaintiffs can (and must) file civil actions to challenge NCAs, one solution, and one that has already been utilized, is possible criminal action and investigation through states attorney generals’ offices. For instance, the New York Attorney General in June 2016 entered into a settlement with Jimmy John’s, whereby the restaurant chain agreed to stop including noncompetition agreements in its hiring documents.¹¹⁶ The practice was determined to be unlawful by the New York Attorney General’s office. Franchisees of the Jimmy John’s chain in New York had included noncompetition agreements and contracts with all employees, preventing them from accepting jobs with competitors of Jimmy John’s for two years after leaving the company and from working within two miles of a Jimmy John’s store¹¹⁷ “that made more than 10% of its revenue from sandwiches.”¹¹⁸ The Attorney General deemed this practice “unconscionable” when used to limit the mobility and opportunity for minimum-wage workers.¹¹⁹

111. Ill. Comp. Stat. 90/5 (2017).

112. S. 2418, 189th Gen. Ct. (Ma. 2016).

113. H. 4434, 190th Gen. Ct. (Ma. 2016).

114. See S. 5756, 65th Leg. (Wash. 2017).

115. See Kristen Amond, *Equalizing the Threat of Noncompete Agreements: Solutions Beyond Louisiana’s Tangled Web of Nullity*, 76 LA. L. REV. 1235 (2016).

116. Whitten, *supra* note 1.

117. *Id.*

118. *Id.*

119. *Id.*

Another notable effort to address the cost of litigation to employees might be legislation on the award of attorney's fees in noncompete cases. While some states, such as Florida,¹²⁰ allow a prevailing party to recover attorney's fees, some may argue that a truer balancing considering the perceived uneven balance of power between employer and employee would be to provide attorney's fees only to employees if they prevail, and not employers. This view, however, is not without limitations, since it may conflict with attorney's fees provisions and statutes in some states that would permit either party that prevails to recover attorney's fees.¹²¹

V. PROPOSED JUDICIAL APPROACHES

In this Part, we come together to propose a nuanced middle ground to encourage courts to engage in a more robust analysis of NCAs that is in keeping with the common law and principles of equity. We believe that if courts pay as much attention to ensuring that a legitimate business interest for a restraint exists as they spend considering the reasonableness of the restrictions, most NCA abuses will be eliminated. But there are a number of other specific facts that courts should consider to determine the reasonableness of NCAs in the employment context.

We start with the premise that the unique nature of trade secrets—the fact that they exist only so long as they are not disclosed or disclosed in confidence—requires that they be protected against accidental, unauthorized, or other improper disclosure. This interest must, however, be balanced against public policy in favor of employee mobility and other public interests. To that end, we join forces to present an analytical framework, and suggest some guiding principles that courts faced with the enforceability of NCAs might use to guard against their use for anti-competitive and/or abusive purposes.

As noted above, in keeping with common law, the first part of the inquiry should focus on the legitimate business interest analysis. This examines the nature of the underlying information and whether it is already publicly known, including whether the information constitutes the general skill and knowledge of the employee. Efforts to maintain the confidentiality of the information should also be ascertained. The second part of the inquiry, after having determined

120. FLA. STAT. § 542.335(k) (2015).

121. See e.g., CAL. CODE § 1717 (2015); FLA. STAT. § 57.105(7) (2015); WASH. REV. CODE § 4.84.330 (2015).

the existence of “protectable information,” should focus on whether the restraint is no more than necessary to protect the employer’s interest. As part of this analysis, there should be some showing that the employee actually had access to the information and actual or potential threat of use in his new employment. To that end, the following questions ought to be considered and weighed.

A. Whether There Are Trade Secrets To Be Protected

To the extent the employer asserts that there are trade secrets at issue, the court can determine if the information is generally known or readily ascertainable and whether it has economic value. The employer should also be prepared to demonstrate the critical component of establishing trade secrecy: that it took reasonable efforts to protect the secrecy of the information. If the information at issue is confidential information, but does not rise to the level of a trade secret, the employer should still demonstrate that it took steps to protect the confidentiality of the information. NCAs that purport to protect trade secrets and other confidential information as identified by the employer should be enforceable under contract law even if the information does not meet the “independent economic value” requirements of trade secrecy.

Consistent with common law limitations on the scope of protectable information, the information to be protected cannot include the general skill and knowledge that is part of the employee’s toolkit. Where an employee has worked in an industry for a long time, it can be difficult to differentiate between an employee’s general knowledge, and the employer’s trade secret information. As one court noted:

Mere “knowledge of the intricacies of a [former employer’s] business operation” does not constitute a protectable secret that would justify prohibiting the employee from “utilizing his knowledge and talents in this area. A contrary holding . . . would make those in charge of operations or specialists in certain aspects of an enterprise virtual hostages of their employers.”¹²²

Thus, the court must determine whether the employee’s competitive value to the new employer lies in his knowledge of the former employer’s trade secrets, or in the employee’s array of general knowledge and experience gained from education and prior work in the industry.

122. *Int’l Paper Co. v. Suwyn*, 966 F. Supp. 246, 256 (S.D.N.Y. 1997) (quoting *Reed Roberts Assocs., Inc. v. Strauman*, 353 N.E.2d 590, 594 (N.Y. 1976) (alteration in original)).

B. Whether the Employee Had Access to the Protected Information

This inquiry focuses on the extent of the employee's access to the protectable information claimed to be protected by the NCA. It should be analyzed against the backdrop of the reasonable efforts requirement of trade secrecy and the emerging best practice that trade secret and confidential information should only be shared on a "need to know" basis. The greater the amount of access to and the volume of proprietary information specified, the greater the risk to the employer that the information might be used inappropriately. Thus, inquiry into the nature of the employee's position with the former employer, the nature of the trade secrets or proprietary information at stake, and the employee's role with the new employer would be highly relevant. The employer may also wish to demonstrate the likely harm that could result from the employee's access to, and potential disclosure of, the proprietary information.

While reformers have attempted to draw lines around wages and executive-level versus nonexecutive-level employees or various types of occupations,¹²³ these limits are not always sufficient. There are instances, particularly in smaller operations or startups, where a person's salary or title does not appropriately reflect their access to and possession of trade secrets. Accordingly, the aforementioned line drawing could have gaps and not reach certain types of employees who should be covered. Focusing an NCA strategy on who is actually given access to critical information is a practical way of solving the line drawing problem. It also demonstrates one downside to relying on legislation rather than the flexibility of the courts, who can rule on a case-by-case basis.

Consideration should also be given to how the employee acquired the subject information. It is a long-standing policy of the United States, codified in the UTSA and the DTSA, that the acquisition of information through reverse engineering and independent development (and more generally, through education and personal growth) is a proper means of acquiring information. Contractual restrictions that purport to prevent such activities should, at a minimum, be evaluated as part of the reasonableness analysis, if not banned outright as a means to balance the interests of employers and employees.

123. See *infra* Part III.A.

C. Whether There Is Evidence that the Employee Has Misappropriated or Threatened To Misappropriate the Employer's Proprietary Information

The existence of evidence suggesting bad faith or that the employee has or will disclose or use the information should weigh heavily in favor of enforcing the restraint. In such circumstances (particularly if the information at issue is trade secret information), the NCA is likely to be a complementary remedy to any accompanying counts for trade secret misappropriation. Both the UTSA and DTSA provide remedies for actual and threatened misappropriation of trade secrets. As such, where evidence of such misappropriation exists, the employer's protectable interest in the NCA is further strengthened. The absence of evidence of misappropriation does not, however, mean that the agreement should not be enforced, but may dictate the type of remedy to be granted. Indeed, this is the benefit of a contractual agreement, as long as upon consideration of the other principles it is deemed reasonable and enforceable.

D. Whether the NCA, on Its Face, Appears Reasonable in Terms of Scope and Duration, in Light of the Nature of the Employee's Duties and Position with the Company

Scope and duration is typically the current focus of most courts' analysis of NCAs.¹²⁴ Within our framework, however, emphasis is also placed on the conditions under which the agreement was made. To the extent the non-competition clause looks like it was arrived at after careful deliberation and negotiation, rather than an overbroad contract of adhesion, it should be viewed more favorably to the employer. This would discourage "click to agree" types of agreements. In addition, the inclusion of known unenforceable terms in the agreement should weigh heavily against the employer, as this is evidence of bad faith and may constitute an act of unfair competition.

It goes without saying that the sandwich-maker at Jimmy John's is not the kind of employee who should be signing a two-year noncompetition agreement.¹²⁵ However, a proper inquiry into the reasonableness of a noncompetition agreement under those circumstances should lead to the right outcome. There certainly is room for state legislatures to try to address these kinds of blanket and,

124. See discussion *infra* note 35.

125. See Clare O'Connor, *Does Jimmy John's Non-Compete Clause For Sandwich Makers Have Legal Legs?*, FORBES (Oct. 15, 2014), <http://bit.do/JimmyJohnsLegalLegs>.

albeit, unreasonable restraints *ex post*, but we have to be careful not to throw out the baby with the bathwater.

E. Whether the Employer Has Provided Payment for the Period of Time that the Employee Will Be Out of Work

“Garden leave” agreements where the employer agrees to pay the salary of the employee while he sits out for a certain period of time before joining the new employer should be encouraged and looked upon with favor. These agreements address concerns of fairness and equity to the employee, who is seen as prevented from earning a living. Whether the payment to sit out is part of the NCA or proposed by the employer after initiation of litigation should not make a significant difference, and ought to weigh equally in favor of the employer. The key is to determine the reasonableness of the compensation in light of the period of noncompetition, including any reduction in career advancement during any period of inactivity.

F. Whether the NCA Strikes the Appropriate Balance Between the Employee’s Freedom to Work and the Employer’s Protection of Its Protectable Business Interests

Ultimately, evaluation of the above considerations will assist the court in deciding whether the NCA is enforceable in light of the particular facts and circumstances of the case. As part of that determination, the court may consider whether the restraint is the least restrictive in light of the nature of the information and the threat posed by the employee’s new employment. In other words, there should be a direct connection between the type of information to be protected and the terms of the restraint. In particular, the shelf-life of the information should be considered because in some situations the nature of the information could be such that it will no longer be secret or competitively sensitive at the time the enforcement of an NCA is requested or after a short period of time.¹²⁶ In those situations, a court may lean toward a shorter restrictive period than that provided in the agreement.

After weighing all of the foregoing considerations and general principles of equity, and depending on that which is permissible in the jurisdiction, the court can determine whether the NCA is enforceable. If so, it can choose from a range of options to craft an order that reflects the most equitable balance under the circumstances.

126. See UTSA § 2(a) (which explicitly limits the length of allowable injunctions).

VI. CONCLUSION

In this article, we entered the debate about the propriety of NCAs through our lens as trade secret scholars. We explored both the values and detriments of NCAs, each taking sides in the debate and providing relevant information about the different approaches to the enforceability of these agreements. Finally, we came together to suggest a nuanced middle-ground to encourage courts to engage in a more robust analysis that focuses on both the legitimate business interest to be protected by the NCA and reasonableness in the scope of the agreement. To that end, we recommend consideration of six questions to help guide courts in achieving a more equitable and balanced outcome to protect the interests of employers and employees.